SPAIN

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1996	1997	1998	1/
Income, Production and Employment:				
Real GDP (1986 Prices) 2/	337.4	302.1	296.3	3/
Real GDP Growth (pct) 4/	2.4	3.5	3.9	
GDP (At Current Prices)	582.5	532.1	532.2	
GDP by Sector:				
Agriculture	20.2	16.7	15.9	
Industry	135.9	125.3	126.4	
Construction	45.7	40.7	40.6	
Services	346.2	316.8	315.7	
Government	96.8	86.0	84.0	
Per Capita GDP (US$)	14,595	13,335	13,340	
Labor Force (000s)	15,936	16,121	16,245	
Unemployment Rate (pct)	21.8	20.8	19.0	
Money and Prices (annual percentage growth):				
Money Supply (M2)	7.0	11.8	10.07	
Consumer Price Inflation	3.6	2.0	2.0	
Exchange Rate (PTA/US$ annual average)	126.6	146.4	150.0	
Balance of Payments and Trade:				
Total Exports FOB 5/	102.8	105.2	110.5	
Exports to U.S. 5/	4.3	4.6	4.9	
Total Imports CIF 5/	122.5	123.5	129.1	
Imports from U.S. 5/	8.0	7.8	8.3	
Trade Balance 5/	-19.7	-18.3	-18.6	
Balance With U.S. 5/	-3.7	-3.2	-3.4	
Fiscal Deficit/GDP (pct)	4.4	3.0	2.1	
External Public Debt	N/A	N/A	N/A	
Debt Service Payments (Paid)	N/A	N/A	N/A	
Gold and Foreign Exchange Reserves	61.8	72.5	75.0	

1/ 1998 figures are all estimates based on available monthly data in July.

2/ GDP at factor cost.

3/ Devaluation.
4/ Percentage changes calculated in local currency.
5/ Merchandise trade.

Note: Estimates for 1998 show lower figures in U.S. Dollars than previous years due to a rise in the U.S. Dollar/Spanish Peseta exchange rate. According to embassy estimates, a 2.5 percent appreciation of the U.S. Dollar over the Spanish Peseta is expected for the end of 1998.

1. General Policy Framework

Spain's economy is expected to grow by 3.9 percent in 1998. This growth is expected to moderate in 1999, but still be in the 3.0-3.5 percent range. Growth is broadly based and enjoys major support from services, agricultural exports, capital goods investment, and private consumption.

The stock market reached new highs through July, and after tracking declines in major industrial economies in August and September, resumed its upward climb in late October.

Much of Spain's economic policy had focused on meeting Maastricht Treaty targets which set out criteria for consideration to join the European Monetary Union. These policies provided continuing benefits in the form of lower interest rates and low inflation rates which have helped Spain promote investment and spur consumer demand. These latter activities have provided greater than anticipated tax receipts which in turn have allowed Spain to meet handily government deficit/GDP targets. Annual inflation, at 2.0 percent, is at its lowest level in over thirty years. Past government budget cuts, higher than expected tax receipts, and lower than expected payments for servicing government debt will allow this government's deficit/GDP ratio to fall below 3 percent in 1998. The government debt/GDP ratio is expected to fall below 69 percent moving toward the 60 percent goal.

Unemployment remains the one area in which structural policies have made some but not adequate inroads. The present government encouraged direct negotiations between employers and unions on employment terms in 1996 instead of looking to the government to make changes through legislation. Changes agreed in 1996 and 1997 provided flexibility in hiring practices that would lessen somewhat the high fixed cost of permanent new hires and have stimulated employment creation. This step in the right direction, combined with a buoyant economy, has succeeded in lowering the unemployment rate to below 19 percent. Despite its labor market rigidities, Spain creates more jobs than any other EU country.

2. Exchange Rate Policy

Spain has maintained its Deutsche Mark (DM) parity in the 84-85 percentile range in preparation for the euro fixing. Throughout 1998, the Bank of Spain lowered interest rates on a path to converge with comparable DM rates. In early November, the Bank of Spain cut its key lending rate to 3.5 percent, only two-tenths of a percent short of the comparable DM rate (3.3 percent).

3. Structural Policies

As a member of the European Union, Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain will be bound to the mutual recognition agreements in its application of certain non-tariff regulations applied to eight categories of goods from the United States.

In 1989, as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided for the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 Investment Law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under article 58 of the treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish Government authorization to invest in broadcasting, gaming, air transport, or defense. Restrictions on broadcasting and in transport are facing increasing pressure as the government looks to privatizing its national airline (perhaps in 1999), and completes the privatization of its telephone company.

Faced with the loss of the Spanish feed grain market as a result of Spain’s membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987 which established a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement had the effect of extending this agreement indefinitely. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU’s lengthy and non-transparent process for approving agricultural products produced through modern genetic engineering methods has negatively impacted U.S. corn exports to Spain. Due to the EU’s failure to approve some U.S. corn varieties in 1997, U.S. corn exports to Spain declined by almost $150 million. Unless the EU takes steps to streamline its biotechnology product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitute a trade barrier for U.S.-origin goods:

-- Import Authorization (*autorizacion administrativa de importacion*) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;

-- Prior Notice of Imports (*notificacion previa de importacion*) is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoices number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Goods that are shipped to a Spanish customs area without proper import licenses or declarations are usually subject to considerable delay and may run up substantial demurrage charges. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The government has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Eighteen percent of Spanish medium and long-term debt is held by non-residents. The Spanish Government has standby loan arrangements in foreign currency with a consortia of foreign banks and has an agreement with several investment banks to float bonds in foreign markets as an alternative to domestic financing. Approximately one-third of Spanish Government debt is short-term (less than one year) and less than one quarter is long-term (i.e. maturities greater than five years).

At the end of August 1998, international reserves at the Bank of Spain totaled 71.8 billion dollars.

5. Significant Barriers to U.S. Exports

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products be reduced by an average of 20 percent during the five year period from 1995 to 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. These regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in Spanish beef production, the EU continues to ban U.S. beef originating from feedlots where growth promotants have been used safely and under strict regulation for many years. In August 1997, the WTO ruled that the ban was illegal and must be removed. The EU is required to eliminate the ban by March 1999; however, the EU has appealed that decision.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact on the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation was fully implemented in Spain. Agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Telecommunications: Spain will liberalize its telecommunications market beginning December 1, 1998. Prior to this date, the government has been phasing in competition in basic telephony through licenses granted to recently privatized second operator Retevision and to third operator Lince (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning January 1, 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, has resulted in a slow start for the establishment of the cable sector in Spain.

On the other hand, digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are two digital television platforms, via digital and canal satellite digital, which currently offer digital television programming. Retevision has announced plans to offer a competing digital TV package provided over a terrestrial network. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. Retevision won the bid for a third mobile license in early 1998. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government has established the telecommunications market commission as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: The EU revision of the 1989 "Television Without Frontiers" broadcast directive was completed in 1997, without significant change. It left intact the flexible language of the original version as regards the quota regime which mandates that a majority of broadcast time be allocated to European content and avoided extending its scope to the new technologies. The Spanish draft implementing legislation calls explicitly for a 51 percent allocation of annual broadcast time to European works.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997, the government adopted the implementing regulations for the 1994 Cinema Law, which had provoked a strong reaction from U.S. industry because of protectionist provisions that sought to reserve a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations significantly eased the impact of the 1994 law on non-EU producers and distributors as it applies to screen quotas and dubbing licenses. For screen quotas, the new required ratio for exhibitors was changed from one day of EU-produced film for every two days of non-EU-produced film to one day for every three days. For dubbing licenses, the regulations established a three-tiered system, which -- according to the 1994 law -- is slated to be phased out in 1999. However, the system of screen quotas will remain in effect.

Despite its continuing protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction as it had been earlier. However, in 1998, the Catalan regional government adopted a decree under its new law on language policy, which calls for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The United States has been negotiating with the EU for mutual recognition of product standards and acceptance of testing laboratory results.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently, China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to about $220 million in 1996. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1996.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. It enacted a new Patent Law in March of 1986, a new Copyright Law in November 1987, and a new Trademark Law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992, Spain enacted a modernized Patent Law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until after the turn of the century. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. While the pharmaceutical sector would like the government to intervene, it looks to the EU commission and the advent of the euro to resolve this single market problem.

The Copyright Law is designed to redress historically weak protection accorded movies, videocassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits and searches do take place under these provisions.

According to industry sources, Spain has a relatively high level of computer software piracy despite estimated declines in the last two years. Industry estimates for 1997 show a drop to 59 percent from 63 percent in 1996. Therefore, concerned groups have focused increasingly on enforcement, with industry and government cooperating on a series of problems aimed at educating the judiciary, police and customs officials to be more rigorous in their pursuit of this problem.

Motion picture (i.e. video) and audio cassette piracy also remains a problem. However, thanks to the government prohibition on running cable across public thoroughfares and strict enforcement of the Copyright Law that holds that no motion picture can be shown without authorization of the copyright holder, the incidence of community video piracy has declined.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new Trademark Law which will incorporate TRIPs, the EU Community Trademark Directive, and the Trademark Law Treaty, and which it hopes will be enacted in 1999. But first, the supreme court must decide the case presented by the Catalan and Basque regional governments that they have the constitutional right to operate trademark registration offices as well. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

8. Worker Rights

a. The Right of Association: All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. The Right to Organize and Bargain Collectively: The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. Minimum Age for Employment of Children: The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. Acceptable Conditions of Work: Workers in general have substantial, well defined rights. A 40 hour workweek is established by law. Spanish workers enjoy 12 paid holidays a year and a month's paid vacation. The employee receives his annual salary in 14 payments -- one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

f. Rights in Sectors with U.S. Investment: Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		194
Total Manufacturing		6,432
Food & Kindred Products	1,504	
Chemicals & Allied Products	1,036	
Primary & Fabricated Metals	212	
Industrial Machinery and Equipment	60	
Electric & Electronic Equipment	1,021	
Transportation Equipment	1,671	
Other Manufacturing	930	
Wholesale Trade		1,472
Banking		2,031
Finance/Insurance/Real Estate		639
Services		432
Other Industries		442
TOTAL ALL INDUSTRIES		11,642

Source: U.S. Department of Commerce, Bureau of Economic Analysis.